



County of Los Angeles  
**CHIEF ADMINISTRATIVE OFFICE**

713 KENNETH HAHN HALL OF ADMINISTRATION • LOS ANGELES, CALIFORNIA 90012  
 (213) 974-1101  
<http://cao.co.la.ca.us>

DAVID E. JANSSEN  
 Chief Administrative Officer

June 20, 2005

Board of Supervisors  
 GLORIA MOLINA  
 First District

YVONNE B. BURKE  
 Second District

ZEV YAROSLAVSKY  
 Third District

DON KNABE  
 Fourth District

MICHAEL D. ANTONOVICH  
 Fifth District

The Honorable Board of Supervisors  
 County of Los Angeles  
 383 Kenneth Hahn Hall of Administration  
 500 West Temple Street  
 Los Angeles, CA 90012

Dear Supervisors:

**2005-06 DEBT MANAGEMENT GUIDELINES; BOND ANTICIPATION NOTE  
 AUTHORIZATION AND REIMBURSEMENT RESOLUTION  
 (ALL DISTRICTS) (3-VOTES)**

**IT IS RECOMMENDED THAT YOUR BOARD:**

- 1) Approve the attached Debt Management Guidelines which limit the issuance of various debt financing instruments in 2005-06.
- 2) Approve the issuance of short-term Bond Anticipation Notes in an aggregate amount not to exceed \$70.0 million to finance the acquisition of various equipment needs through the Los Angeles County Capital Asset Leasing Corporation.
- 3) Adopt the attached "Resolution of the Board of Supervisors of the County of Los Angeles Declaring its Intention to Reimburse Certain Capital Expenditures from the Proceeds of Taxable or Tax-Exempt Obligations (2005-06 Equipment BANs Program)".

**PURPOSE/JUSTIFICATION**

Approval of the recommended actions will establish guidelines that limit the issuance of County debt financing instruments in 2005-06 and allow the issuance of short-term Bond

Anticipation Notes (BANs) to provide interim financing of equipment acquisitions in accordance with federal tax regulations.

## **Background**

On July 3, 1990, the Board of Supervisors adopted Comprehensive Debt Management Guidelines (Guidelines) to regulate the use of various financing instruments. The Guidelines provide limits for the issuance of short and long-term obligations. They do not apply to voter-approved debt or debt incurred by Agency funds. The Guidelines are reviewed annually and an annual update is filed with the Board regarding the following types of obligations:

- Bond Anticipation Notes
- Short-Term Tax-Exempt Notes
- Long-Term Leasehold Revenue Bonds or Certificates of Participation
- Unrated Short and Long-Term Obligations

The limits adopted for each of these debt categories are expressed as a percentage of the Total County Budget and represent the maximum amount of short-term obligations, such as the BANs or tax-exempt commercial paper, which may be issued, as well as the maximum level of annual debt service on intermediate and long-term obligations and bonds and certificates of participation (COPs) which may be incurred during the fiscal year.

In 1990, the Board of Supervisors approved a limit on the level of BANs issued and outstanding for capital projects and equipment equal to 2.0 percent of the Total County Budget. The Board also approved a limit on the annual payments due on intermediate and long-term bonds, or COPs, equal to 4.0 percent of the Total County Budget, and 0.4 percent for unrated, publicly offered obligations. The Board-approved 2003-04 Debt Guidelines reflected an increase in the limit on short-term BANs and tax exempt commercial paper (TECP) to 2.7 percent due to the anticipated issuance of \$331.5 million in tax-exempt commercial paper (TECP) for the LAC+USC Medical Center Replacement Project ("the Project"), as approved by your Board on December 3, 2002. The General Fund's annual, tax-exempt, tax and revenue anticipation notes were limited to the maximum amount borrowable under federal tax regulations.

## **Proposed 2005-06 Debt Management Guidelines**

The Proposed 2005-06 Debt Guidelines place a limit on short-term BANs and tax-exempt commercial paper at 2.4 percent of the Total County Budget, and maintain the limits on annual payments for intermediate and long-term bonds or COPs, at 4.0 percent and 0.4

percent, respectively. The reduction in the short-term debt limit from 2004-05 reflects an increase in the total County budget, as well as repayments during 2004-05 of outstanding TECP from the 1997 BANs redemption. In order to finance Project costs over the coming year, our office estimates 2005-06 TECP issuance at approximately \$150 million, bringing the total TECP outstanding for the Project to \$328 million. The recommended limits on annual payments for intermediate and long-term bonds or COPs are consistent with the Guidelines adopted in 1990. The debt and annual payment obligations projected for 2005-06 are specified in Attachment I.

### **Reimbursement Resolution**

In addition to adopting the proposed debt limits, we are requesting that your Board execute the attached Reimbursement Resolution, as approved by County Counsel, to comply with federal tax regulations governing the recovery of County capital costs from taxable and tax-exempt bond proceeds. Execution of the Resolution will enable the County to maximize reimbursement for costs related to the financing of equipment for various County departments.

#### *Internal Revenue Service Requirements*

In 1991, the Internal Revenue Service (IRS) introduced regulations governing the reimbursement of expenditures from bond or COP proceeds. In order to ensure the continued recovery of allowable expenditures which were related to equipment acquisitions, the regulations require your Board to adopt a Resolution which states the following:

- your Board's intention to finance expenditures related to equipment acquisitions;
- a statement that any such expenditures would be financed through a tax-exempt or taxable issuance of bonds or COPs;
- a qualitative description of the proposed project whose expenditures would be reimbursed from the proceeds of such an issue; and
- identification of the expected source(s) of funds which would initially pay for such expenditures and ultimately be utilized to repay the bond or COP obligation.

The attached resolution meets IRS regulations and will allow for maximum reimbursement of County expenditures for equipment from future bond sales. Prior and current year costs have been included to allow reimbursement from a future bond sale. A description of the proposed equipment is attached for your review.

**FISCAL IMPACT / FINANCING**

Approval of the recommended actions will enable the County to finance ongoing equipment and capital needs. Funding for the repayment of BANs and debt service on intermediate and long-term obligations has been included in the Proposed 2005-06 Budget. Attachment II summarizes General County debt obligations as of July 1, 2005.

**FACTS AND PROVISIONS/LEGAL REQUIREMENTS**

The attached Reimbursement Resolution has been approved by County Counsel.

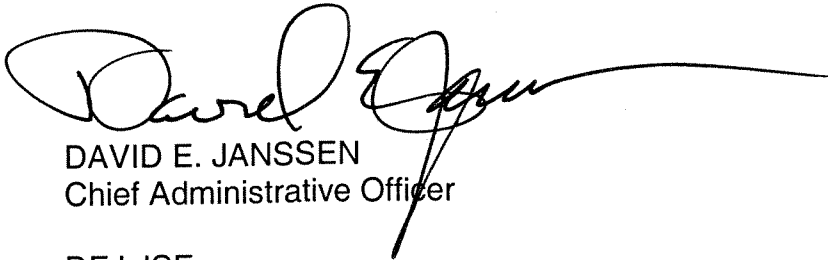
**IMPACT ON CURRENT SERVICES**

The recommended action will ensure that the County's long-standing LAC-CAL Equipment Program continues.

**CONCLUSION**

Upon approval of the recommendations, please forward an adopted, stamped copy of the Board letter and an executed copy of the Reimbursement Resolution to my office.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "David E. Janssen", with a long horizontal flourish extending to the right.

DAVID E. JANSSEN  
Chief Administrative Officer

DEJ:JSE  
DJT:PB

Attachments

c: Executive Officer, Board of Supervisors  
County Counsel  
Auditor-Controller  
Treasurer and Tax Collector

County of Los Angeles  
Debt Management Guidelines  
Proposed 2005-06 Debt Limits

Obligation Type	Maximum Limits Per Guidelines	Levels in Proposed 2005-06 Budget
<b>Total Proposed 2005-06 County Budget: \$18,538,000,000</b>		
<b>I. Short-Term Obligations</b>		
<b>Limit on Principal Outstanding as a Percentage of Total County Budget</b>		
a. Dollar Limits		
Outstanding LAC-CAL Bond Anticipation Notes (1)	\$ 70,000,000	\$ 30,000,000 (2)
Authorized LAC-CAL Acquisitions in 2005-06	--	38,758,000 (3)
Outstanding Tax-Exempt Commercial Paper: 1997 BANs Redemption	9,800,000	9,800,000 (4)
Outstanding Tax-Exempt Commercial Paper: LAC+USC Medical Center Replacement Project	331,460,000 (5)	177,600,000 (6)
Estimated Tax-Exempt Commercial Paper Issuance for LAC+USC Replacement Project in 2005-06	--	150,000,000
Total	\$ 411,260,000	\$ 406,158,000
b. Percent of Total County Budget	2.40%	2.37%
<b>II. Publicly Offered Intermediate and Long-Term Obligations (7)</b>		
<b>Limits on Annual Payments as a Percentage of Total County Budget</b>		
a. Dollar Limits (in millions)	\$ 741,520,000	\$ 554,444,000
b. Percent of Total County Budget	4.00%	2.99%
<b>III. Privately Placed, Intermediate-Term Equipment Leases (8)</b>		
<b>Limits on Annual Payments as a Percentage of Total County Budget</b>		
a. Dollar Limits (in millions)	\$ 68,592,000	\$ 21,865,000
b. Percent of Total County Budget	0.40%	0.13%

- Notes:**
- (1) Reflects BANs issued by the LAC-CAL Corporation to the County Treasury Pool which are ultimately redeemed through the issuance of bonds or certificates of participation. Until redemption, interest payments are payable on a semi-annual basis.
  - (2) Reflects amount of LAC-CAL BANs outstanding as of 7/1/05.
  - (3) Reflects the value of acquisitions identified for lease-purchase financing through LAC-CAL in the Proposed 2005-06 Budget
  - (4) Reflects the amount of tax-exempt commercial paper (TECP) that remains outstanding as of 07/01/05 from an original 1997 issuance of \$196.9 million that redeemed then outstanding bond anticipation notes that were issued to fund preconstruction costs on various health-related capital projects.
  - (5) Reflects the amount of tax-exempt commercial paper authorized by the Board of Supervisors on 12/3/02 to partially fund construction costs related to the LAC+USC Medical Center Replacement Project
  - (6) Reflects the amount of TECP issued for the LAC+USC Medical Center Replacement Project that was outstanding as of 7/1/05.
  - (7) Reflects 2005-06 payments due on intermediate and long-term obligations outstanding as of 7/1/2005.
  - (8) Reflects 2005-06 payments on various unrated, privately-placed equipment leases with maturities of 18 to 120 months.

**GENERAL COUNTY DEBT OBLIGATIONS  
SUMMARY SHEET  
AS OF JULY 1, 2005**

	Outstanding Principal	Total Future Payments	2004-05 Payments
<b>I. Debt Summary</b>			
a. Total Outstanding Principal	\$ 2,424,014,433	\$ 0	\$ 0
b. Total Future Payments	0	4,235,727,246	0
c. Total 2005-06 Payments	0	0	554,444,060
<b>II. Outstanding Debt By Type of Obligation</b>			
a. General Obligation Bonds	\$ 16,205,000	\$ 18,142,250	\$ 9,086,144
b. Special Fund Obligations	66,828,095	74,881,276	20,203,270
c. Pension Obligation Bonds/Certificates	1,050,107,396	2,170,354,954	356,883,004
d. Long-Term Bonds/Certificates: Capital Projects	1,275,218,941	1,956,163,693	157,321,374
e. Intermediate Term Bonds/Certificates	15,655,000	16,185,072	10,950,269
Total	\$ 2,424,014,433	\$ 4,235,727,246	\$ 554,444,060
<b>III. Outstanding Debt by Function</b>			
a. Public Safety	\$ 688,481,227	\$ 1,094,627,076	\$ 106,142,279
b. General Government	104,134,283	129,220,428	37,673,552
c. Pension Bonds	1,149,588,875	2,229,499,025	319,743,454
d. Health	346,169,280	454,632,681	74,232,599
e. Culture and Recreation	108,173,855	294,430,079	10,582,956
f. Other	27,466,913	33,317,956	6,069,220
Total	\$ 2,424,014,433	\$ 4,235,727,246	\$ 554,444,060
<b>IV. Distribution of Obligations by Funding Source</b>			
a. General Fund	\$ 820,840,593	\$ 1,476,368,790	\$ 186,226,955
b. Other Funds			
General Obligation Bond Fund	\$ 16,205,000	\$ 18,142,250	\$ 9,086,144
Hospital Enterprise Funds	671,404,549	1,049,240,262	153,699,091
Courthouse Construction Funds	408,713,243	710,965,556	35,649,424
Special Districts/Special Funds	168,794,174	28,316,698	54,892,529
Trial Court Trust Fund	53,978,670	111,562,756	18,344,857
Subtotal	\$ 1,319,095,637	\$ 1,918,227,523	\$ 271,672,044
c. Private Funding (Endowments)	\$ 0	\$ 0	\$ 0
d. State and Federal Subvention	\$ 284,078,203	\$ 587,130,933	\$ 96,545,061
Total	\$ 2,424,014,433	\$ 3,981,727,246	\$ 554,444,060

RESOLUTION OF THE BOARD OF SUPERVISORS OF THE  
COUNTY OF LOS ANGELES DECLARING ITS INTENTION TO  
REIMBURSE CERTAIN CAPITAL EXPENDITURES FROM THE  
PROCEEDS OF TAXABLE OR TAX-EXEMPT OBLIGATIONS  
(2005-06 EQUIPMENT BANs PROGRAM)

WHEREAS, from time to time the County of Los Angeles (the "County") desires and intends to undertake the purchase of tangible personal property having a useful life of three years or more (the "Equipment"), as set forth in the schedule attached hereto; and

WHEREAS, no funds of the County or of any other entity which is a part of the controlled group of which the County is a part (the "Controlled Group") are, or are reasonably expected to be, allocated, reserved or otherwise set aside in the County's budget or in the Controlled Group's budget on a long-term basis to pay the costs of the Equipment; and

WHEREAS, the costs of the Equipment will initially be paid from the proceeds of Bond Anticipation Notes ("BANs") issued by the Los Angeles County Capital Asset Leasing Corporation ("LAC-CAL") and purchased by the Treasurer and Tax Collector of the County; and

WHEREAS, the costs of the Equipment paid with the proceeds of the BANs are expenditures of a type which are properly chargeable to a capital account under general federal income tax principles in connection with the Equipment, and

WHEREAS, the County expects to issue taxable or tax-exempt bonds, notes, or certificates of participation, or enter into a tax-exempt lease with a third-party lessor ("Obligations") to redeem the BANs and reimburse the capital expenditures of the County with respect to the Equipment which were paid with the proceeds of the BANs; and

WHEREAS, after issuance of the Obligations, the County will: (1) evidence the reimbursement allocation with an entry in the books or records which it maintains with respect to the Obligations, (2) identify in such entry the actual prior expenditure being reimbursed or the fund from which the expenditure was paid, and (3) be relieved of any restrictions under the relevant legal documents and applicable state law with respect to the amount received as reimbursement as a result of the reimbursement allocation; and

WHEREAS, this Resolution will be reasonably available for public inspection within a reasonable period of time after its date of adoption and in the same manner governing the public availability of records of other official acts of the County Board of Supervisors; and

WHEREAS, this Resolution is intended to be a "declaration of official intent" in accordance with Section 1.150-2 of the regulations of the United States Department of Treasury under the Internal Revenue Code of 1986, as amended (the "Treasury Regulations");

NOW, THEREFORE, this Board does find, resolve, determine and order that in accordance with Section 1.150-2 of the Treasury Regulations, the County declares its intention to issue Obligations to finance the Equipment in an amount not to exceed \$70,000,000, the proceeds of which will be used to reimburse the County for capital



expenditures paid for the Equipment prior to the issuance of said Obligations.


The foregoing resolution was on the \_\_\_\_\_ day of June, 2005 adopted by the Board of Supervisors of the County of Los Angeles and *ex-officio* the governing body of all other special assessment and taxing districts, agencies and authorities for which said Board so acts.

VIOLET VARONA-LUKENS, Executive Officer,  
Board of Supervisors of the County  
of Los Angeles

By \_\_\_\_\_  
Deputy

APPROVED AS TO FORM:

RAYMOND G. FORTNER, JR.  
COUNTY COUNSEL

By   
Principal Deputy County Counsel